AR45

Consoltex Canada Inc.

ANNUAL REPORT 1980

Formerly Consolidated Textile Mills Ltd

Consoltex Canada Inc.

35th ANNUAL REPORT

Formerly Consolidated Textile Mills Limited

Registered and Executive Offices
125 Chabanel Street West, Montreal

Sales Offices
Montreal: Fabrics: 125 Chabanel Street West
Condelle House: 700 Hodge Street
Toronto: 111 Peter Street, Suite 601
Vancouver: 198 Hastings Street West, Suite 308
Winnipeg: 317 McDermot Avenue, Suite 115

Manufacturing Facilities
Quebec: Coaticook, Cowansville, Drummondville, Montmagny, Montreal, Sherbrooke, St-Hyacinthe
Ontario: Alexandria

Auditors
Price Waterhouse & Co.
Chartered Accountants
1200 McGill College Avenue, Montreal

Transfer Agent
Canada Permanent Trust Company
600 Dorchester Boulevard West, Montreal, H3B 1N6
1901 Yonge Street, Toronto, M5E 1N4

Principal Banker
The Royal Bank of Canada, Montreal

Shareholders' Meeting
The Annual Meeting of shareholders will be held at the registered office of the corporation at 2:00 p.m. on Tuesday, the 5th day of May, 1981

Version française
Pour obtenir la version française de ce rapport, il suffit d'écrire au secrétaire de direction,
Consoltex Canada Inc.
C.P. 450, Succursale Youville,
Montréal (Québec) H2P 2V9

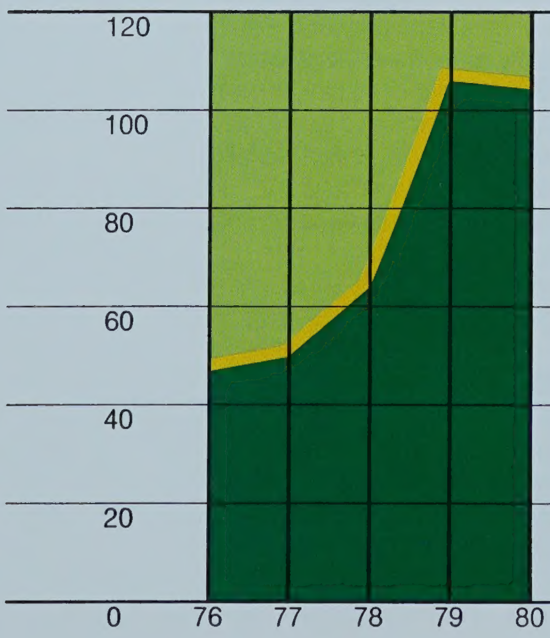
Front cover:
Beaming of yarn in the Cowansville plant preparatory to weaving

Consoltex Canada Inc.

SUMMARY OF FINANCIAL RESULTS

Year ended December 31 (stated in thousands of dollars except per share amounts)	1980	1979
Sales	$103,488	$105,822
Earnings		
Before income taxes and extraordinary item	1,362	13,449
Before extraordinary item	1,294	9,096
Net for year	3,648	13,056
Funds from operations	3,907	14,935
Capital expenditures	9,357	6,563
Working capital	36,832	37,029
Earnings per share		
Before extraordinary item	$ 0.45	$ 3.22
After extraordinary item	1.26	4.62
Equity per share	13.89	13.13

Sales
(in millions of dollars)



Capital expenditures
(in millions of dollars)

Consoltex Canada Inc.

DIRECTORS AND OFFICERS

Ernest Cummins	Chairman of the Board and Director Deputy Chairman and Group Managing Director, Carrington Viyella Ltd.
Danny Taran	President and Chief Executive Officer and Director
Peter G.M. Cox	Vice-President, Finance and Director
Luc Michielli	Vice-President, Marketing and Director
Marcel Thibault	Vice-President, Manufacturing and Director
Robin A. Biggam	Director Executive Director, Carrington Viyella Ltd.
Pierre Giroux	Director Director and Vice-President, Molson, Rousseau & Co.
André Godon	Director Executive Vice-President, Lévesque, Beaubien, Inc.
Harold P. Gordon	Director Advocate, Partner in Stikeman, Elliott, Tamaki, Mercier & Robb, Montreal
Haruyasu Ohsumi	Director President and Chief Executive Officer, Transco Textiles Industries, Ltd.
Hiroharu Okamoto	Director President and Chief Executive Officer, Rosewood Fabrics, Inc.
Myra E. Roussy	Corporate Secretary
Barry E. Yager	Treasurer and Financial Controller

DIRECTOR'S REPORT TO THE SHAREHOLDERS

Danny Taran, President and Chief Executive Officer, with recently appointed Chairman of the Board, Ernest Cummins

The year 1980 was a disappointing one for your corporation. The drop in sales and profitability resulted mainly from the reduced demand for outerwear fabrics, our major product line. Our customers, the garment manufacturers as well as retailers, have been plagued by large inventories which they have carried-over as a result of the unusually mild winter experienced last year. The seven week strike at our dyeing and finishing plant in Alexandria, Ontario, which processes this product line, and extremely high interest costs also contributed to our lower profitability.

Financial Review

Sales were $103,488,000 as compared to $105,822,000 in 1979. Net earnings were $3,648,000 or $1.26 per share as compared to $13,056,000 or $4.62 per share in the previous year. The 1980 results include an extraordinary item of $2,354,000 or $0.81 per share which represents an income tax adjustment arising from the utilization of losses carried forward. The same item in 1979 was $3,960,000 or $1.40 per share. Depreciation charges were $2,261,000 as compared to $1,789,000 in 1979. Capital expenditures in 1980 amounted to $9,357,000 as opposed to $6,563,000 in the previous year.

Human Resources

As at December 31, 1980, your corporation and its subsidiaries employed a total of 1,882 people. Of these, 977 have been with the corporation for more than five years and 306 for more than twenty years.

The added pressures that were created and efforts that were required during the past year to bring about the amalgamation and integration of Bruck Mills' facilities into those of your corporation's have been immense. The determination, hard work and loyalty displayed by our people during this trying period is greatly appreciated and acknowledged by both the Management and Board of Directors.

During the year, your corporation signed two new labour agreements with the Centrale des Syndicats Démocratiques covering our weaving operation in St. Hyacinthe, Quebec and our dyeing and printing operation in Drummondville, Quebec, both for a period of two years.

There was a seven week strike at our dyeing and finishing plant in Alexandria, Ontario which was settled on October 27, 1980 when a new two year contract was negotiated with the Amalgamated Clothing and Textile Workers Union, representing the employees at that plant site. The plant is now returning to full production.

Changes in the Board of Directors

During the year, Mr. L. Regan retired as Chairman of the Board and as a Director of your corporation. Mr. P.W. Benn, Vice-President, Customer Services retired as a Director and an Officer after fourteen years of service. Mr. J. Wilson, Finance Director of Carrington Viyella Ltd. in the United Kingdom, resigned from the Board. Their contri-

New single-end slashing machine used in warp preparation

butions and efforts in the past are greatly appreciated by the Board of Directors and the Management of the corporation.

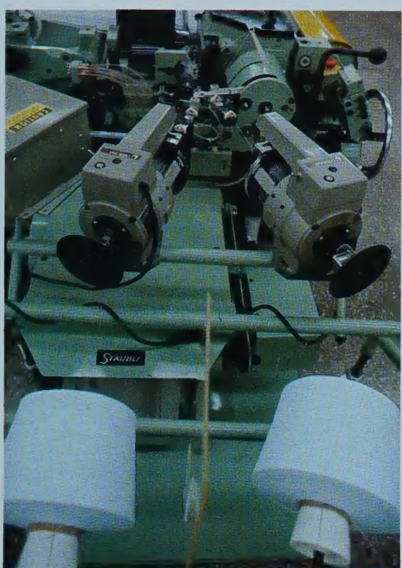
Mr. E. Cummins, Deputy Chairman and Group Managing Director of Carrington Viyella Ltd., was appointed Chairman of the Board of the corporation.

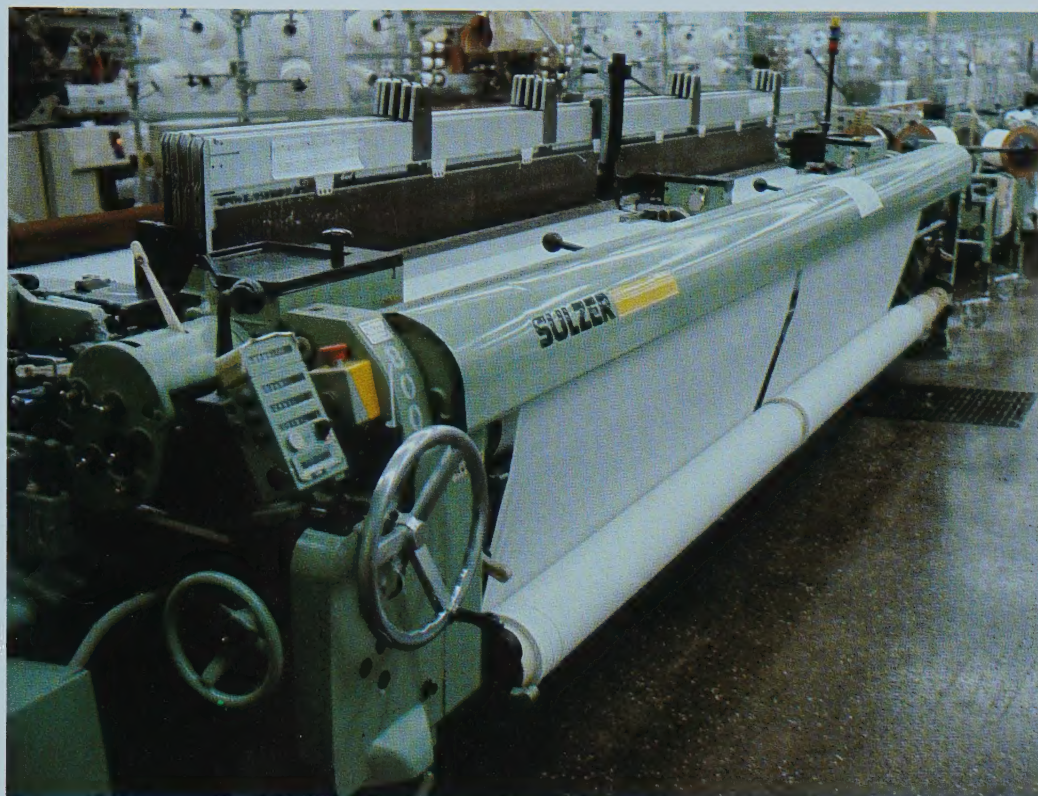
Operations

Capital expenditures for the last two years have totalled approximately $16,000,000. The average yearly expenditure in these two years has been greater than three times that which had been expended in any previous year. These large expenditures are required to take advantage of the technological changes that have taken place in our industry within the last few years. The textile industry has been transformed by these changes in manufacturing technology from a labour intensive to a capital intensive industry to the point where the investment required to create a new job in our industry today is in the order of $250,000 to $300,000. Just a decade ago, this figure was lower than $50,000.

We have upgraded and modernized most of our product areas

New high speed, wide-width Sulzer looms installed in two of our weaving plants during the year





Efficiency in preparation for weaving has been increased by automation of yarn entering

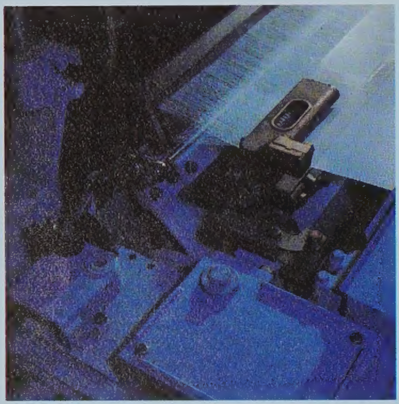
and production processes to ensure our continued competitive position within the domestic industry and internationally in the future.

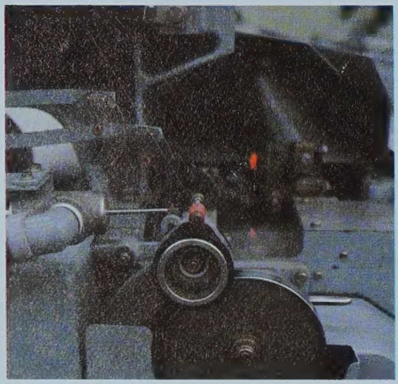
We will have to continue to make investments of this magnitude in future years to complete the total transition to these new technologies. This will ensure our ability to increase productivity, to improve quality, to maintain uniqueness of our product lines and to be energy efficient and also ensure that our production facilities continue to be desirable from the standpoint of quality of work life for our labour force.

Outlook

Last August, the Textile and Clothing Board, under the chairmanship of Dr. Otto E. Thur, published its report following the most extensive and exhaustive investigation of the clothing and textile industries that has ever been undertaken. This enquiry lasted over nine months and 150 companies, associations and groups across Canada submitted briefs. The Board held over 130 private and public hearings. One of its key conclusions was that the Canadian textile industry is comparable with any other in the developed world. It goes on to recommend that bilateral agreements with low-cost and state-trading

High-speed water-jet looms provide the latest weaving technology



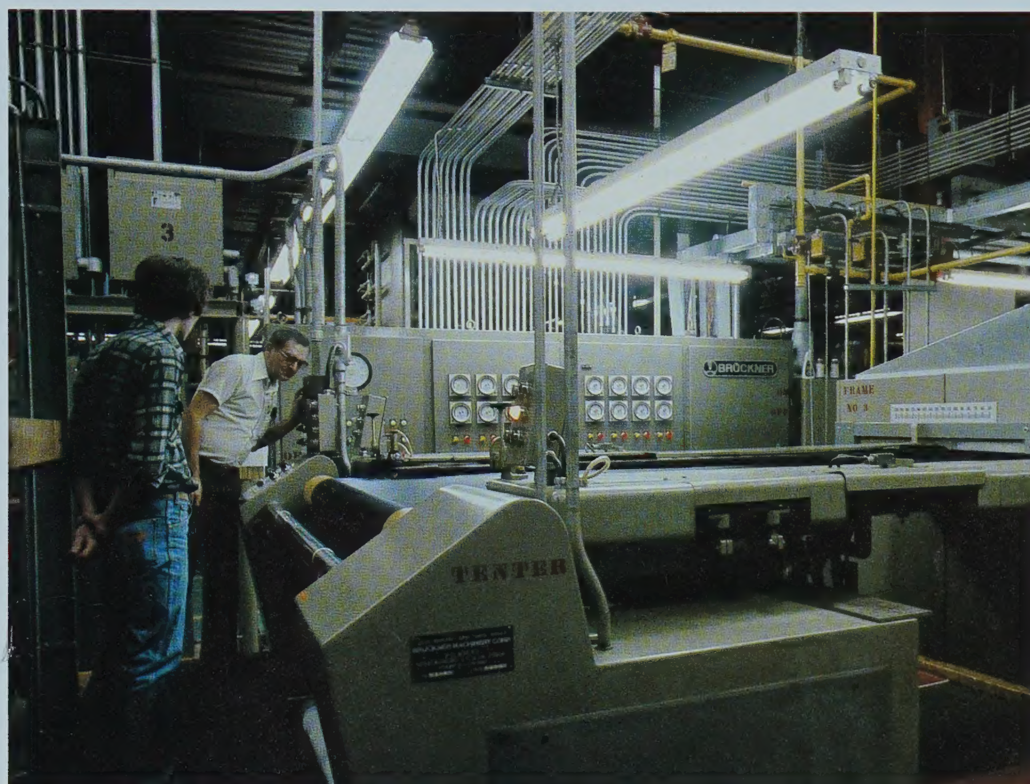


countries now in place be renegotiated for a period of nine years and that the administration of these agreements be tightened.

If the government accepts and implements the recommendations, it would complete the chain of events which, along with the recently signed G.A.T.T. tariff agreements and Canada's unique position in energy, will allow all companies in this industry to invest in the future with some degree of confidence. Massive investments in new technologies are essential to making the Canadian textile industry internationally competitive and to allow it to recapture a greater share of the domestic market and dramatically increase an already very credible export performance. This should also arrest, and hopefully reduce, the growing textile and clothing trade deficit which was approximately 2.0 billion dollars in 1980.

In the shorter term, the high interest rates prevailing throughout most of 1980 which have had an adverse effect on the demand for the majority of our product lines, seem likely to continue. The result of this is that, at all levels of trade, the intense desire to reduce inventories and work with shorter lead times has created extreme distortions in normal buying patterns throughout the system. On the positive side,

Advanced computer facilities control dyeing in the Cowansville plant



Bruckner tenter frame, installed in 1980, has increased the production capacity of the Alexandria dyeing and finishing plant

A-frame systems provide all the finishing plants with the most up-to-date materials handling methods

we expect that this situation will encourage our customers, as well as the retail trade, to buy a greater proportion of their requirements in the domestic market as opposed to importing in order to take advantage of a more responsive supply chain and thereby maximize inventory turns at all levels.

Our ability to cope with these ever changing circumstances will to a great extent dictate our future performance. We are confident that the extremely large capital expenditures made in the last few years on new plant and equipment together with the efforts being expended on our human resources should start to reflect in improved profitability.

On behalf of the Board,

E. Cummins

E. Cummins, Chairman

D. Taran

D. Taran, President

Consoltex Canada Inc.

AUDITORS' REPORT

To the Shareholders of Consoltex Canada Inc.:

We have examined the consolidated statement of financial position of Consoltex Canada Inc. as at December 31, 1980 and the consolidated statements of earnings and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Corporation as at December 31, 1980 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse + Co.

Chartered Accountants

Montreal, Quebec
January 30, 1981

Consoltex Canada Inc.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31 (stated in thousands of dollars)

	1980	1979
Assets employed:		
Current assets:		
Cash	$ 466	$ 294
Accounts receivable and prepaid expenses	24,239	21,754
Inventories (Note 2)	43,064	43,478
Income taxes recoverable	240	383
	68,009	65,909
Current liabilities:		
Bank loans and acceptances (Note 3)	14,938	14,210
Accounts payable and accrued liabilities	15,040	12,956
Dividends payable	363	—
Current portion of long-term debt	504	1,714
Current obligations under capital leases	332	—
	31,177	28,880
Working capital	36,832	37,029
Fixed assets (Note 4)	23,203	17,482
Excess of cost over book value of subsidiaries	1,706	1,706
Unamortized discount	—	25
Assets employed	$61,741	$56,242
Financed by:		
Long-term debt (Note 5)	$20,173	$15,847
Obligations under capital leases (Note 6)	977	—
Deferred income taxes	326	2,328
Shareholders' equity:		
Capital stock (Note 7)	16,449	16,449
Retained earnings	23,816	21,618
	40,265	38,067
Capital employed	$61,741	$56,242

Approved by the Board:

D Daran

Director

Peter G. Hallahan Cox

Director

Consoltex Canada Inc.

CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS

Year ended December 31 (stated in thousands of dollars except per share amounts)

	1980	1979
Sales	$103,488	$105,822
Earnings from operations before the undernoted items	$ 8,223	$ 17,300
Depreciation	(2,261)	(1,789)
Earnings from operations after depreciation	5,962	15,511
Interest:		
Bank loans and acceptances	(2,098)	(1,462)
Long-term debt	(2,502)	(600)
Earnings before income taxes and extraordinary item	1,362	13,449
Provision for income taxes:		
Current	284	(2,333)
Deferred	(352)	(2,020)
Earnings before extraordinary item	1,294	9,096
Income tax adjustment arising from the utilization of losses carried forward	2,354	3,960
Net earnings for year	3,648	13,056
Retained earnings at beginning of year	21,618	8,562
	25,266	21,618
Dividends ($0.50 per share)	1,450	—
Retained earnings at end of year	$ 23,816	$ 21,618
Earnings per share (Note 10):		
Before extraordinary item	$0.45	$3.22
Extraordinary item	0.81	1.40
After extraordinary item	$1.26	$4.62

Consoltex Canada Inc.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Year ended December 31 (stated in thousands of dollars)

	1980	1979
Working capital provided by:		
Earnings before extraordinary item	$ 1,294	$ 9,096
Depreciation	2,261	1,789
Deferred income taxes	352	2,020
Current income tax adjustment arising from the utilization of losses carried forward	—	2,030
Funds from operations	3,907	14,935
Government grants	1,400	—
Shares issued and contribution to capital	—	12,207
Increase in long-term debt	5,250	11,885
Increase in obligations under capital leases	977	—
	11,534	39,027
Working capital used for:		
Fixed asset additions	9,357	6,563
Dividends declared	1,450	—
Plant closure and rationalization costs related to acquisition of subsidiary	—	3,562
Repayment of long-term debt	924	195
Net change in working capital on acquisition of subsidiary	—	2,750
	11,731	13,070
Increase (decrease) in working capital	(197)	25,957
Working capital at beginning of year	37,029	11,072
Working capital at end of year	$36,832	$37,029

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1980

Note 1
Accounting policies:

(a) The consolidated financial statements include the accounts of the Corporation and its subsidiaries, all of which are engaged in the manufacture and sale of textile products. The excess of the cost of shares of certain subsidiaries acquired prior to April 1, 1974 over the book value of their underlying net tangible assets at the time of acquisition is carried at cost.

(b) Inventories are stated at the lowest of cost, replacement cost and net realizable value.

(c) Foreign currency assets and liabilities are translated into Canadian dollars at the exchange rates prevailing at the year-end date. Foreign currency income and expenses incurred in the normal course of business are translated at the exchange rates prevailing at the dates of the transactions.

(d) Fixed assets are recorded at cost. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets. Government grants are amortized on the same basis as the assets to which they apply. Estimated useful lives for the major classes of fixed assets are as follows:

Buildings	40 years
Machinery and equipment	4 to 20 years

(e) The Corporation follows the tax allocation basis of accounting for income taxes, whereby tax provisions are based on accounting income and taxes relating to timing differences between accounting and taxable income are deferred.

(f) The Corporation capitalizes all leases which qualify as capital leases and which were entered into after December 31, 1978. Payments in respect of capital leases entered into prior to this date are charged directly against earnings.

Note 2
Inventories:

	1980	1979
	(in thousands of dollars)	
Raw materials and supplies	$ 8,338	$ 8,860
Work in process	15,615	12,766
Finished goods	19,111	21,852
	$43,064	$43,478

Note 3
Bank loans and acceptances:

The bank loans and acceptances are secured by a general assignment of accounts receivable and inventories.

Note 4
Fixed assets:

	1980	1979
	(in thousands of dollars)	
Land and buildings	$ 7,890	$ 6,579
Machinery and equipment	35,448	28,793
Equipment under capital leases	1,309	—
	44,647	35,372
Less: Government grants	3,489	2,089
	41,158	33,283
Less: Accumulated depreciation	17,955	15,801
	$23,203	$17,482

Note 5
Long-term debt:

	1980	1979
	(in thousands of dollars)	
6¼ % first mortgage sinking fund bonds—		
Series "A" maturing February 1, 1984	$ 1,400	$ 1,400
Series "B" maturing June 15, 1985	1,576	1,576
	2,976	2,976
Less: Amount held in trust representing proceeds on disposal of fixed assets forming part of the security given to the bondholders	188	188
	2,788	2,788
6¾ % Series "A" sinking fund debentures maturing February 1, 1980	—	1,021
Bank loan repayable between 1981 and 1985	2,243	2,388
Term bank loan and acceptances repayable between 1981 and 1989	15,000	10,000
11¾ % mortgage	—	373
6% conditional sales contract repayable between 1981 and 1983 (Swiss Francs 943,850; 1979—1,321,000)	646	991
	20,677	17,561
Instalments due within one year	504	1,714
	$20,173	$15,847

Bank loans and acceptances bear interest at rates which fluctuate (in certain cases within defined limits) with current market rates. At December 31, 1980, the weighted average rate applied against these loans was 18.75%.

The long-term debt, with the exception of the term bank loan and acceptances, is secured by specific and/or floating charges on the Corporation's assets. The term bank loan and acceptances are secured by a general assignment of accounts receivable and inventories.

Sinking fund and repayment requirements for the next five years are as follows (in thousands of dollars):

1981	$ 504
1982	551
1983	1,490
1984	2,361
1985	4,771

Note 6
Commitments:

(a) Capital leases—

The Corporation is committed, under various capital leases entered into subsequent to December 31, 1978, to future minimum lease payments as follows (in thousands of dollars):

1981	$ 500
1982	237
1983	237
1984	237
1985	761
Total minimum lease payments	1,972
Less: Amount representing interest	663
Present value of net minimum lease payments	1,309
Less: Current obligations	332
Long-term obligations	$ 977

Commitments in respect of capital leases entered into prior to December 31, 1978 aggregate some $8,000,000 of which approximately $1,200,000 is payable in each of the next five years with lesser amounts payable annually thereafter. Had these capital leases been recorded as such, the Corporation's fixed assets and obligations under capital leases would have increased by $4,300,000 and $5,700,000 respectively. The effect on net earnings for the year would not have been material.

(b) Operating leases —

The Corporation is also committed under various long-term operating leases to minimum lease payments aggregating some $10,200,000 of which approximately $880,000 is payable in 1981 with lesser amounts payable annually through to 1994.

Note 7
Capital stock:

On June 30, 1980, the Corporation was continued under section 181 of the Canada Business Corporations Act and, under its articles of continuance, changed its authorized share capital from 5,000,000 common shares without par value to an unlimited number of common shares. Concurrently with the above, the Corporation changed its name from Consolidated Textile Mills Limited to Consoltex Canada Inc.

The number of common shares outstanding at December 31, 1980 and 1979 was 2,899,309.

Note 8
Stock options:

The Corporation has a stock option plan whereby up to 100,000 treasury shares of the Corporation may be purchased at a price of $8.625 per share. This option may be exercised during the period from February 27, 1982 to February 27, 1990.

Note 9
Income taxes:

The Corporation has, at December 31, 1980, approximately $7,217,000 of tax losses available to reduce taxable income in future years. If not utilized, tax losses of $715,000 will expire in 1981, $4,829,000 in 1982 and $1,673,000 in 1983.

Note 10
Earnings per share:

The earnings per share are calculated using the weighted average number of shares outstanding during the respective years.

Note 11
Reclassification:

Certain figures for 1979 have been reclassified to conform with the presentation adopted for 1980.

Consoltex Canada Inc.

TEN YEAR COMPARATIVE EARNINGS AND EQUITY

Year ended December 31 (stated in thousands of dollars except per share amounts)	**1980**	1979	1978
Sales	**$103,488**	$105,822	$ 65,341
Earnings from operations after depreciation	**$ 5,962**	$ 15,511	$ 4,762
Less: Interest	**(4,600)**	(2,062)	(1,922)
Earnings before income taxes and extraordinary item	**1,362**	13,449	2,840
Less: Provision for income taxes	**(68)**	(4,353)	(844)
Earnings before extraordinary item	**1,294**	9,096	1,996
Add: Income tax adjustment arising from the utilization of losses carried forward	**2,354**	3,960	—
Net earnings for year	**$ 3,648**	$ 13,056	$ 1,996
Working capital	**$ 36,832**	$ 37,029	$ 11,072
Fixed and other non-current assets	**24,909**	19,213	10,632
Assets employed	**61,741**	56,242	21,704
Less: Long term debt	**(21,150)**	(15,847)	(3,050)
Deferred income taxes	**(326)**	(2,328)	(2,238)
Shareholders' equity	**$ 40,265**	$ 38,067	$ 16,416
Earnings per common share			
Before extraordinary item	**$ 0.45**	$ 3.22	$ 0.88
After extraordinary item	**1.26**	4.62	0.88
Equity per common share	**$ 13.89**	$ 13.13	$ 7.08
Return on average shareholders' equity	**9.3%**	47.9%	13.0%

	1977	1976	1975	1974	1973	1972	1971
	$ 52,283	$ 48,683	$ 48,028	$ 41,098	$ 36,201	$ 30,245	$ 23,525
	$ 2,690	$ 3,115	$ 2,177	$ 2,430	$ 2,133	$ 1,878	$ 1,733
	(1,785)	(1,785)	(1,515)	(1,711)	(973)	(714)	(532)
	905	1,330	662	719	1,160	1,164	1,201
	(101)	(507)	(239)	(472)	(517)	(551)	(587)
	804	823	423	247	643	613	614
	—	—	—	—	—	—	—
	$ 804	$ 823	$ 423	$ 247	$ 643	$ 613	$ 614
	$ 9,507	$ 8,656	$ 5,648	$ 5,330	$ 5,782	$ 5,395	$ 4,446
	10,445	11,091	11,975	12,088	11,174	10,747	5,428
	19,952	19,747	17,623	17,418	16,956	16,142	9,874
	(3,108)	(3,542)	(2,425)	(2,560)	(2,775)	(2,950)	(3,250)
	(2,606)	(2,771)	(2,683)	(2,766)	(2,336)	(2,263)	(1,247)
	$ 14,238	$ 13,434	$ 12,515	$ 12,092	$ 11,845	$ 10,929	$ 5,377
	$ 0.36	$ 0.37	$ 0.19	$ 0.11	$ 0.30	$ 0.34	$ 0.53
	0.36	0.37	0.19	0.11	0.30	0.34	0.53
	$ 6.40	$ 6.04	$ 5.76	$ 5.56	$ 5.45	$ 5.06	$ 4.45
	5.8%	6.3%	3.4%	2.1%	5.7%	7.5%	12.4%